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REVIEW STAFF

75-2188

MEMORANDUM FOR: Review Staff
SUBJECT : Audit Staff Briefing of HSC Staffers

1. Our meeting with HSC staffers Emily Sheketoff and Ed Roeder lasted about two hours. In addition to the staffers the meeting was attended by [redacted] Chief, Audit Staff; [redacted] Deputy Chief; and [redacted] from the Review Staff.

2. I began the briefing with an historical analysis of the evolution of the Audit Staff. I emphasized the fact that none of the Directors were required to have any audit of CIA expenditures but had stressed strict accountability for funds to avoid embarrassment and ultimate loss of confidential funds authority. I also mentioned that the General Accounting Office had audited non-confidential funds expenditures from inception of the Agency to 1962 and these comprised generally about one-half of CIA expenditures. At this point Mr. Roeder expressed the opinion that the GAO audit was not really a complete audit if it only reviewed one-half of the Agency expenditures. I agreed with his statement and pointed out that was the reason GAO withdrew from auditing the Agency in 1962.

3. I continued my historical analysis and discussed the rapid expansion of the Audit Staff in 1952 due to the increase in proprietary activity. At that time seven auditors from GAO were hired to form the nucleus for an expanded staff. These individuals ultimately became the branch and division chiefs and three of them have held super-grade positions within the Audit Staff. Also, the present Chief of the Audit Staff came from this initial group.

4. I then discussed the general philosophy of audit within the Agency and management's demand for annual audits of every activity. I stressed the fact that up until two years ago these audits concerned themselves primarily with the conduct of financial operations and reporting and compliance with applicable laws and regulations. In 1974, stimulated by Federal Management Circular 73-2 and GAO Standards for Audit, we asked for and obtained approval of Mr. Colby to extend our audits to cover the economy and efficiency of operations and the review of major programs.

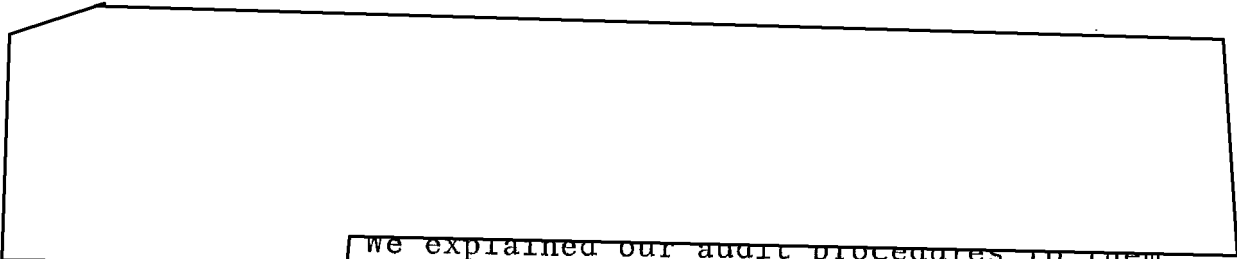
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we explained our audit procedures to them which encompassed reviewing accountings and related documentation certified by certifying officers and approved by approving officers. We mentioned that auditing normally is done on a test basis depending on the internal controls which exist. Generally, we probably review only 5% of all vouchers which would cover about 20% of all Agency expenditures.

6. The staffers then questioned whether or not our audits conform to standards followed by CPA firms, particularly with respect to payments to agents such as a [redacted] I indicated that with respect to payments of that type it would be impossible for us for security reasons to follow normal audit procedures which require confirmation on a test basis directly with the recipient. I pointed out that CPA firms would have the same difficulty in confirming payments by an oil company to foreign political parties especially if they were made in cash as I presume they were.

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7. The staffers then raised the question of auditing the CHAOS operation. I indicated that I was unaware of the operation but my predecessor probably was. The staffers could not understand why we would not have audited an activity such as this. I indicated that, due to the sensitivity, some operations are handled on a need-to-know basis between the DCI and one or more other components, and unless a project was formulated with an administrative plan, we could be unaware of an activity such as CHAOS.

8. I concluded with the statement that we were now following the audit guidelines of Federal Management Circular 73-2 and placing audits on a priority basis rather than attempting to audit every activity, large or small, every year. The staffers asked whether I had enough manpower to carry out my audit responsibilities. I indicated this was a difficult question to answer as I was not sure of the impact on manpower of program audit and ADP systems audit requirements. I then mentioned the Touche Ross & Company report on auditing within CIA as an indication of the quality of audit. (The DCI had suggested that this report be sanitized and given to the HSC.) They asked for the report and it was delivered to the Review Staff that same day.

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